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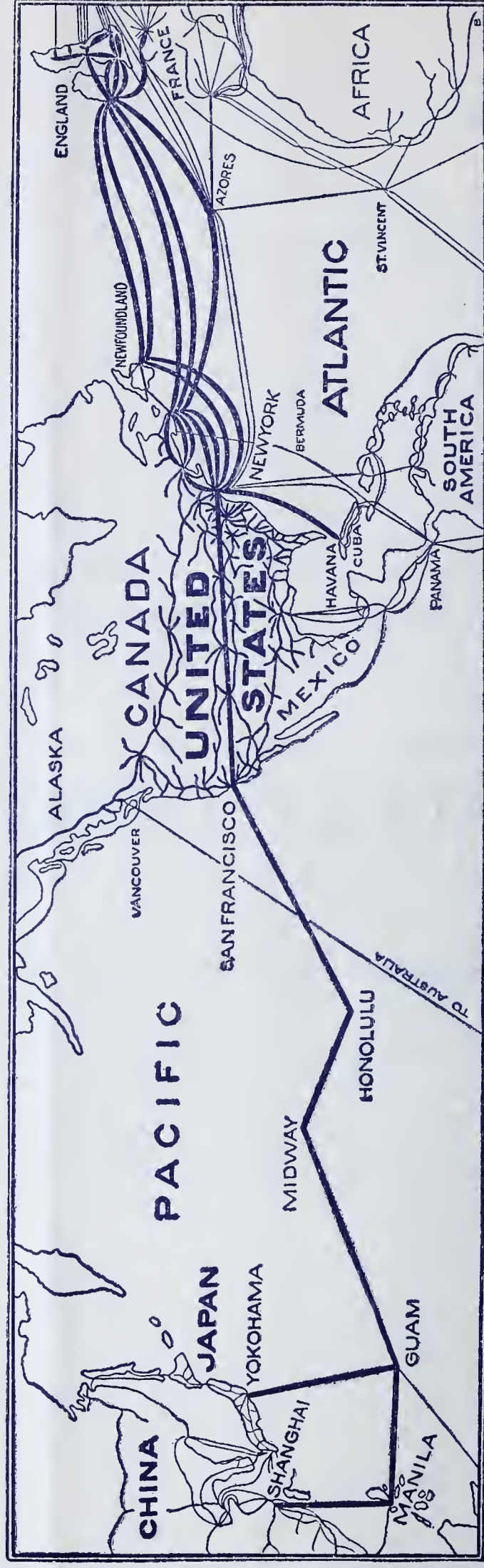
ANNUAL REPORT

THE MACKAY COMPANIES

FEBRUARY 15, 1912

THE MACKAY COMPANIES

SYSTEMS, AND CONNECTIONS



COMMERCIAL CABLE COMPANY
POSTAL TELEGRAPH-CABLE COMPANY
COMMERCIAL PACIFIC CABLE COMPANY
COMMERCIAL CABLE COMPANY OF CUBA

**CANADIAN PACIFIC RAILWAY TELEGRAPHS
GERMAN ATLANTIC CABLE COMPANY
EASTERN TELEGRAPH COMPANY (EUROPE)**

HALIFAX AND BERMUDAS CABLE COMPANY
DIRECT WEST INDIA CABLE COMPANY
GREAT NORTHERN TELEGRAPH COMPANY (EUROPE

ANNUAL REPORT

OF THE TRUSTEES OF

THE MACKAY COMPANIES

TO THE SHAREHOLDERS

THE MACKAY COMPANIES

OFFICERS.

CLARENCE H. MACKAY, PRESIDENT.

GEORGE G. WARD, VICE-PRESIDENT.

EDWARD C. PLATT, TREASURER.

ALBERT BECK, SECRETARY.

WILLIAM W. COOK, GENERAL COUNSEL

TRUSTEES.

CLARENCE H. MACKAY,

WILLIAM W. COOK,

GEORGE G. WARD,

EDWARD C. PLATT,

ROBERT A. SMITH,

HENRY V. MEREDITH,

MILTON W. BLACKMAR.

THE MACKAY COMPANIES

TO THE SHAREHOLDERS:

Your Trustees make the following report:

Your companies were never in better condition physically, financially or in the efficiency and enthusiasm of the staff.

The twelve million dollars realized about two years ago from the sale of American Telephone and Telegraph Company stock is still preserved intact, in cash and in the highest class of securities, including New York City bonds, and this great fund is ready for emergencies, extensions or the taking up of a new line of business.

The gross income of your telegraph and cable companies in 1910 was the largest in their history. In 1911, notwithstanding the temporary interruption of your telegraph company's business to and from Texas, Arkansas, Oklahoma and parts of the adjoining states by reason of the action of a Texas Telegraph Company (whose wires formerly worked with your wires) in connection with its Bell Telephone affiliations, your Trustees are pleased to report that the gross income of your companies, separately or combined, was almost exactly the same in 1911 as in the preceding year 1910. As to the expenses, however, such a satisfactory report cannot be made. Expenses have increased, principally by the higher wages paid to the skilled

operators and other employees engaged in the fast service, which the Postal Telegraph Company inaugurated and upon which it depends for public favor. This fast service has preserved to the company its full share of the general telegraph business. Your Trustees believe that the public desires the greatest speed and accuracy obtainable in the regular service. The results would seem to justify this belief.

A "night letter" service was inaugurated by the Western Union Company two years ago. The Postal Telegraph Company is giving this kind of service but is not seeking it. Careful study of its cost to the telegraph company as compared with the average toll received, convinces your Trustees that it is carried on without a profit and probably at a loss. The night letter originated in France. It has been in use in that country for several years. The results there correspond with our estimate of it here. They have been unsatisfactory. An authoritative statement recently published in France is to the effect that the night lettergram contains many unnecessary words, simply because they may be sent without any extra charge, and that the rate is "insufficient to pay for the working expenses." It is further stated that:—

"The letter telegram is the outcome of a very plausible idea; to utilize during several hours of the night, expensive lines from which, until now, practically no revenue has been derived. * * * But it appears that the conditions were not sufficiently taken into account. * * * There are instruments which wear out; there are employees to be paid at both ends of a line to be operated. The depreciation of the material has not been considered, the employees appear to have been a negligible quantity; the only thought seems to have been to get more out of them."

The "day letter" is still another form of service. That is a proposition to transmit in the day time a telegram of fifty words in plain language at one and a half times the regular day rate, the company retaining the right to

defer the transmission until after other day telegraph messages are transmitted. The Postal Telegraph Company declined to adopt it, although recognizing the fact that it was really a cut rate for long telegrams. The Postal Telegraph Company's objection to it is partly the same as to the night letter. It encourages a wasteful use of words and slows down the service by reason of the time required for its transmission. It is unprofitable in itself and detrimental to the regular traffic. This would have been fatal to the very fast service which the Postal Telegraph Company believes is the proper object of a telegraph company. Lines loaded with fifty word day letters cannot render efficient public service when, as so often happens, unexpected events make a sudden and great demand for instantaneous communication. The essence of a good telegraph service and its real value to any community is its capacity to send messages and receive answers in the shortest possible time and accurately. It is evident that it is an agency which above all others should be in such a state of preparedness that it may be relied on for this efficient service in cases of great urgency and emergency. New business is created when the telegraph company makes its service so prompt that the largest number of messages, questions and answers can circulate in the shortest possible time. A telegram carries with it the idea of urgency and no telegraph company should lose sight of that fundamental character of urgency in a telegram.

The governments of Europe, in co-operation with all of the Atlantic Cable Companies, have brought about a change in cable rates, designed to benefit the occasional sender of a cablegram. It is the cutting of cable rates on cable messages in plain unabbreviated language to certain specified countries, to one-half the rate previously charged; for example, from twenty-five cents a word to twelve and a half cents a word, subject to the messages being deferred. The Commercial Cable Company does not regard this as a new source of traffic. It does not expect that

the traffic will be either large or profitable. This expectation is borne out by the returns to date. The reduced rate is proper because there is a large class of persons of limited means whose need of the cable service is only occasional, and who have no "codes" to compress their messages. They will find the new cable rate of advantage, when in times of stress or domestic affliction their need of cable communication with friends abroad is urgent.

As a general proposition, however, reductions in present cable rates cannot be expected. Cablegrams are necessarily expensive. The cost of providing the means of transmission and of operating the means of transmission is so great as to preclude the possibility of cheapness. The mercantile community by the use of highly specialized "codes" compress into a few words a mass of necessary and important matter and the expense is part of the merchant's operating expense and is taken into account in his transactions. The net cost per word is extremely small.

The combination of the Bell Telephone interests with the Western Union created a temporary difficulty for your companies in Texas and the adjoining states. Your land-line system had a contract for the exchange of business with the independent Texas Telegraph Company. That contract ran for many years, and then the Texas Company passed into the control of the American Telephone and Telegraph Company. Hence, when later the American Telephone and Telegraph Company combined with the Western Union Telegraph Company, so that the telephone interests controlled both the Western Union and the Texas Company, the situation for your companies became intolerable, and thereupon your Trustees proceeded to extend your land line system throughout that territory. The work has been done with phenomenal speed. A first-class line has been built from Wichita, Kansas, down through the State of Oklahoma and the State of Texas, through Fort Worth,

Dallas and Houston to Galveston, nearly a thousand miles. Another line has been built from Baton Rouge, Louisiana, westward to Houston, Texas. Still another line is rapidly approaching completion from a point opposite Memphis, Tennessee, to Little Rock, Arkansas, and Dallas, Texas. Connection has been made with Austin and San Antonio, in the State of Texas. Numerous spurs and branch lines have also been completed. The result is that that vast territory has been covered with a network of Postal lines and wires, and competitive service is now given in the full sense of the word. It is a feat that is creditable in every way to the Postal Telegraph Company. Its staff met and successfully solved a problem which faced the company when it was cut off from the states of Texas, Arkansas and Oklahoma, and parts of the adjoining states. With the completion of that system, the receipts of your land line system from telegraph business to and from that part of the United States are increasing rapidly and those receipts are no longer divided with a connecting company, as was formerly the case. The strength and prosperity of your land line system has been greatly increased.

Among the extensions and improvements commenced by the Commercial Cable Company during the past year is the change of its cable landings adjacent to New York City, from Manhattan Beach to Far Rockaway. This was rendered necessary by reason of the United States Government proceeding to dredge for harbor purposes at the point where the cables landed at Manhattan Beach. The changing of these cable landings from Manhattan Beach to Far Rockaway, it is expected, will be completed in the course of a few months.

The Commercial Cable Company has completed the removal and enlargement of its terminal facilities in London. The entire building, 63 and 64 Gracechurch Street, which is in the heart of the financial district of London, has been remodelled to accommodate the increased business of the company.

During the past year three important litigations which the Postal Telegraph Company instituted on account of discriminations by the Bell Telephone and Western Union Companies have resulted in favor of the Postal Telegraph Company. The Public Service Commission of New York State decided that the Western Union was discriminating in regard to messages received by the Postal Company and destined to exclusive Western Union points, and the Commission decided that the Western Union must not make an extra charge against the Postal Company in addition to the full regular Western Union rate. In California the Court held that neither the Western Union nor the Railroad Company could prevent the Postal Company condemning a right of way for its telegraph line on a railroad even though the Western Union had a contract with the railroad, whereby the Western Union was given a monopoly of the railroad right of way for telegraph purposes. On January 1, 1912, the Bell Telephone Companies surrendered on the question in litigation between the Postal Telegraph Company and the Cumberland Telephone and Telegraph Company, as to the right of the latter to compel the Postal Company to give to the telephone company a percentage of the receipts of the telegraph company on telegrams delivered or received over the telephone. The United States Court decided in that case that the exaction was illegal and discriminatory against the Postal Company.

As to the telephone situation, your land line system proposes to work out a comprehensive plan, by which it will string heavy copper wires on its poles in any part of the country, where independent telephone companies care to lease telephone circuits between cities and towns, and where such wires will be useful to your land line system for telegraph purposes, in case any of such independent telephone companies should discontinue such leases by reason of their being purchased by Bell telephone interests. Considerable progress has already been made in this direc-

tion, thereby utilizing the space on the poles of your land line system, and at the same time bringing in a substantial revenue, and rendering aid and assistance to the independent telephone companies.

On January 15, 1912, the Postmaster General of the United States announced that in his opinion the Government should purchase all the telegraph lines in the country and operate them through the Post Office Department. This announcement has not met the approval either of the President of the United States or of the American people. It undoubtedly would involve sooner or later the taking over of the telephone lines also, the same as has happened in Great Britain, and this in the United States would mean the incurring of a national debt of something over two billions of dollars, the present value of the telegraph and telephone lines, to say nothing of necessary extensions which are required in the telephone business from year to year at an appalling rate. The Postmaster General's plan has met with little public response.

The Mackay Companies has no debts. Its outstanding preferred shares (\$50,000,000) have not been increased during the past five years. Its outstanding common shares (\$41,380,400) have not been increased during the past seven years. No bonds, notes or stock have been issued and no debts incurred during the year and yet there has been substantial growth of your ocean and land line systems. During the present year important extensions and improvements to your system will be made on land and sea.

The income of the subordinate companies of The Mackay Companies is greater than is required to pay the dividends of The Mackay Companies, but its policy is to obtain from its subordinate companies only enough money to meet those dividends. The physical properties of the subordinate companies are maintained in excellent condition. All reconstruction is charged to operating expense. All extensions and improvements have been paid for from

annual receipts, including the new lines in Texas and adjoining states. No debts have been incurred. Your Trustees feel that your system is in so strong a position that the stability of your investment is assured.

The employees of The Commercial Cable and Postal Telegraph systems continue to invest their savings very largely in the shares of The Mackay Companies, their holdings being over two million dollars par value.

The accounts of The Mackay Companies are audited monthly by Messrs. Barrow, Wade, Guthrie & Company, Chartered Accountants of New York and London, and accompanying this report will be found the balance sheet and profit and loss account as of February 1, 1912.

Dated, February 15, 1912.

FOR THE TRUSTEES,

CLARENCE H. MACKAY,
President.

ACCOUNTS

PROFIT AND LOSS ACCOUNT

FOR THE YEAR FEBRUARY 1, 1911, TO FEBRUARY 1, 1912

RECEIPTS:

Income from investments in other Companies. . \$4,128,490.61

DISBURSEMENTS:

Dividends paid on

The Mackay Companies

Preferred shares \$2,000,000.00

Common shares 2,069,020.00

Operating expense, including

Transfer Agents, Registrars,

Auditors and Trustees' com-

pensation, office rent, salaries,

stationery, engraving of certifi-

cates, etc. 32,091.72

Balance carried forward. 27,378.89

\$4,128,490.61

BALANCE SHEET

ASSETS.

Investments in other Companies...	\$91,919,338.66	
Cash	411,899.85	
		<hr/>
		<u>\$92,331,238.51</u>

LIABILITIES.

Preferred shares issued.....	\$50,000,000.00	
Common shares issued.....	41,380,400.00	
Surplus	950,838.51	
		<hr/>
		<u>\$92,331,238.51</u>

We have audited the books, accounts and vouchers of The Mackay Companies, and have also examined its securities, and hereby certify that the above Profit and Loss Account and Balance Sheet correctly set forth the condition of The Mackay Companies on February 1st, 1912.

BARROW, WADE GUTHRIE & Co.,

Chartered Accountants.

